

Message Text

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ACTION NEA-10

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E.O. 11652: N/A

TAGS: EINV, ECEM, IN

SUBJECT: DRUG INDUSTRY - HATHI REPORT

REF: NEW DELHI 9583

1. ECONOFF HAD A CHANCE TO TALK RECENTLY WITH DR. M.C. GUPTA, PRODUCTION MANAGER OF WARNER HINDUSTAN IN HYDERABAD, ABOUT HATHI REPORT AND ITS EFFECTS ON HIS COMPANY.
 2. GUPTA SAID THAT SINCE WARNER HINDUSTAN IS OWNED ONLY 50 PERCENT BY WARNER LAMBERT, A DILUTION OF EQUITY TO 40 PERCENT WOULD NOT BE TOO PAINFUL. HOWEVER, THE U.S. FIRM DOES NOT WANT TO SELL ANY OF ITS EQUITY IF IT CAN HELP IT FOR THE SIMPLE REASON THAT IT IS PROFITABLE. THERE IS NO REAL LIKLIHOOD THAT WARNER LAMBERT WILL SELL OUT, GUPTA SAID, BUT THE HATHI REPORT HAS INDEED KILLED THE U.S. PARTNER'S INTEREST IN MAKING ANY NEW INVESTMENT IN INDIA. AS AN EXAMPLE, GUPTA SAID, THAT IN 1972 WARNER LAMBERT PROPOSED SETTING UP A RAZOR BLADE MANUFACTURING PLANT THROUGH SCHICK, ONE OF THEIR SUBSIDIARIES. THE GOI VACILLATED. IN DECEMBER 1974, THE GOI FINALLY APPROVED. BUT NOW WARNER LAMBERT IS NO LONGER INTERESTED. THIS DEAL, SAID
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GUPTA, WOULD HAVE BEEN A VERY GOOD ONE FOR INDIA. THERE

WAS ABSOLUTELY NO ROYALTY OR LICENSING FEE FOR THE TECHNOLOGY.
WARNER LAMBERT WOULD SIMPLY HAVE RECEIVED DIVIDENDS ON
ANY PROFITS IN PROPORTION TO ITS PRESENT EQUITY SHAREHOLDING.

3. GUPTA SAID THE NET AFFECT OF THE HATHI REPORT WOULD BE
THE LOSS TO INDIA OF NEW DRUG TECHNOLOGY FROM FOREIGN FIRMS.
HE ADDED THAT, WHILE MOST FOREIGN FIRMS WOULD HUNKER
DOWN AND HANG ON, QTE THE HANDWRITING IS ON THE WALL AND
THE NEXT STEP IS DILUTION TO 26 PERCENT SHAREHOLDINGS AND
NATIONALIZATION UNQTE. HE SAID ONE ASPECT OF EQUITY
DILUTION THAT BOTHERED DRUG FIRMS THE MOST WAS THAT SHARES
MUST BE SOLD TO GOI INSTITUTIONS. THIS IN EFFECT MEANT NOT
ONLY DILUTION, BUT DE FACTO NATIONALIZATION.

4. ALTHOUGH HE SEEMED PRETTY CALM, IF SOMEWHAT FATALISTIC,
ABOUT POST-HATHI PROSPECTS, GUPTA WAS OUTSPOKENLY CRITICAL
OF THE PROFESSIONAL CAPABILITIES OF THE HATHI COMMISSION
MEMBERS. HE SINGLED OUT DR. DHAR, RETIRED HEAD OF THE
CENTRAL DRUG RESEARCH LABORATORIES, AS AN INCOMPETENT
BUREAUCRAT, AND TERMED THE ENTIRE COMMITTEE A COLLECTION
OF GRANDSTANDING POLITICIANS AND TECHNOLOGICAL HACKS. TO
ILLUSTRATE, HE SAID, WHEN THE COMMITTEE VISITED WARNER
HINDUSTAN, IT DEMANDED TO KNOW WHY WH DIDN'T DO BASIC
RESEARCH. THE RESPONSE WAS THAT WH DID DO PRODUCT
RESEARCH, BUT THAT TO SET UP BASIC RESEARCH WOULD COST
RS 50 MILLION INITIALLY AND RS 10 MILLION PER YEAR. DHAR
ARGUED THAT IT WOULD COST NO MORE THAN RS 6 MILLION, WHICH
GUPTA SAID, MADE IT PLAIN THAT HE SIMPLY DIDN'T KNOW WHAT
HE WAS TALKING ABOUT. GUPTA CONCLUDED, PERHAPS NOT
INACCURATELY, THAT THIS COLLECTION OF RETIRED AND FADING
INCOMPETENTS SEE IN THE HATHI COMMISSION RECOMMENDATIONS
A MOUTH WATERING CHANCE TO SUDDENTLY ACQUIRE FOR THEMSELVES
POWER, PRESTIGE, AND NATIONAL RECOGNITION AS THE CUSTODIANS
OF THE NEW GOI SHAREHOLDING IN APL THESE BIG, SHINY FOREIGN
COMPANIES.

5. GUPTA ALSO OFFERED A FEW COMMENTS ON HOW WH WAS FARING
AT THE MOMENT. HE SAID THE FIRM WAS IN A BETTER POSITION
THAN LAST YEAR WITH RESPECT TO THE COST-PRICE SQUEEZE
CAUSED BY THE OIL CRISIS. GOI PRICE CEILINGS WERE STILL
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A HINDRANCE, BUT RAW MATERIAL COSTS HAVE BEEN FALLING A
BIT BECAUSE SURPLUS WORLD DRUG STOCKS BUILT UP AS HEDGES
HAVE BEGUN TO BE SOLD OFF. GUPTA SAID USAID HAD ASKED
WH TO MAKE AN EARLY REPAYMENT OF A COOLEY LOAN INSTALLMENT
FOR THE FIRST TIME, BUT THE FIRM HAD BEEN ABLE TO COMPLY
WITHOUT ANY PROBLEM.
EAVES

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